



Joel E. Lubin
Regulatory Vice President
Government Affairs

Room 5460C2
295 North Maple Avenue
Basking Ridge, NJ 07920
908 221-7319
FAX 908 221-4628

EX PARTE OR LATE FILED

July 17, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street N.W., Room 1222
Washington, D.C. 20554

Re: Ex Parte CC Docket No. 96-98 -
Implementation of the Local Competition
Provisions of the Telecommunications Act of 1996

Dear Mr. Caton:

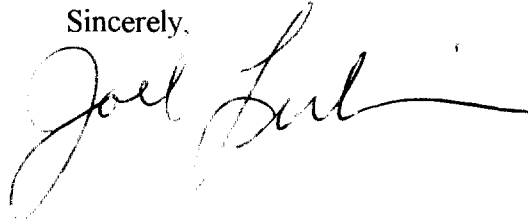
On July 16, 1996, I met with Greg Rosston of the Commission's Staff to discuss AT&T's public position on avoided costs for resold local services.

Further, in response to a request from the Commission Staff, AT&T has used data from publicly available RBOC ARMIS reports to calculate an overall avoided cost discount for each of the RBOCs, as well as an aggregated avoided cost discount for all RBOCs. The attached document sets forth the results of these calculations. These calculations are less complex or refined than those used in AT&T's Avoided Cost Model (the "Model"), documentation of which was filed with the Commission as Exhibit E to the Reply Comments of AT&T Corp. in CC Docket No. 96-98, because the Model assigns ILEC revenues and expenses to, and determines an avoided cost discount for, each of five ILEC lines of business: Access; Miscellaneous; Private Line; Toll and Local. Nevertheless, these overall RBOC calculations result in avoided cost discounts ranging from 31% to 44%, and thus validate the Model's methodology.

02

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(1) of the Commission's Rules. Because my meeting with Mr. Rosston occurred late in the day on July 16th, this Notice is being filed on the next business day.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joel L. Lurie", with a long horizontal flourish extending to the right.

Attachment

AVOIDED COST CALCULATIONS

In its calculations, AT&T started with total RBOC revenues (from the RBOC's ARMIS reports) and subtracted those revenues not subject to discount, *i.e.*, access revenues and miscellaneous. AT&T then identified those direct expenses which are not applicable to the RBOCs provision of wholesale services, *i.e.*, Uncollectibles (Account 5300), Marketing Expense (Account 6610), Customer Service Expense (Account 6620), and Operator Systems Expense (Account 6220), plus a portion of Operations Testing (Account 6533) and Operations Plant Administration (Account 6534), and considered these costs to be avoided.

AT&T then identified indirect expenses associated with the following ARMIS accounts: Network Support (Account 6110); General Support (Accounts 6120); Executive and Planning (Account 6710) and General and Administrative (Account 6720). As shown on the Indirect Expense Worksheet, Depreciation Expense from Account 6560 for General Support Assets and Operator Systems was also identified by determining the ratio of Total Land and Support Assets and Operator Systems Assets, respectively, to Total Plant in Service from ARMIS 43-02, and applying that ratio to the RBOC's depreciation expense shown in Account 6560.

The expenses for Operator Systems depreciation were considered totally avoided. The other indirect expenses generally support all services, and, while not attributable to any particular service, they do in fact change as the overall level of services changes. These indirect costs were deemed avoided in proportion to the amount of direct costs that were avoided. As demonstrated by the regression analysis filed in this proceeding at the Commission's request on June 28, 1996, a statistically significant and proportionate relationship exists between growth in direct costs and growth in indirect costs. For each RBOC, the ratio of avoided direct costs to total direct costs shown on the Indirect Expense Worksheet was applied to these indirect costs to determine the avoided indirect costs.

Avoided Cost Discount Calculation

Account	Category	Ameritech	Bell Atlantic	Bell South	NYNEX	PacTel	USWEST	SWBell	All RBOCs
	Total Regulated Operating Revenues, Prior to Uncollectibles Adjust.	\$ 10,493,325	\$ 10,891,850	\$ 13,633,412	\$ 12,832,473	\$ 7,783,929	\$ 9,024,090	\$ 8,452,147	\$ 72,311,226
5080	Total Network Access Rev. Inc. EUCL	\$ 2,816,571	\$ 3,397,534	\$ 4,181,256	\$ 3,567,961	\$ 2,415,349	\$ 3,124,743	\$ 3,086,668	\$ 22,570,082
5200	Miscellaneous Revenues	\$ 615,813	\$ 603,638	\$ 1,026,835	\$ 697,207	\$ 302,104	\$ 365,373	\$ 261,290	\$ 3,862,058
	Total Rev. Not Subject to Discount	\$ 3,432,384	\$ 4,001,170	\$ 5,207,891	\$ 4,265,168	\$ 2,717,453	\$ 3,490,116	\$ 3,327,958	\$ 26,432,140
	Revenues, net of Access & Misc.**	\$ 7,060,941	\$ 6,890,680	\$ 8,425,521	\$ 7,767,305	\$ 5,066,476	\$ 5,543,974	\$ 5,124,189	\$ 45,879,086
	Avoided Direct Retail Expenses: Regulated RBOC Expenses:								
5300	Uncollectibles	\$ 127,639	\$ 134,287	\$ 116,023	\$ 161,134	\$ 114,388	\$ 71,021	\$ 73,130	\$ 191,622
6610	Marketing Expense	\$ 519,770	\$ 345,253	\$ 514,980	\$ 547,317	\$ 426,096	\$ 359,817	\$ 230,183	\$ 2,942,376
6611	Product Management	\$ 162,719	\$ 102,616	\$ 124,659	\$ 249,001	\$ 117,582	\$ 108,245	\$ 39,047	\$ 903,849
6612	Sales	\$ 239,891	\$ 196,716	\$ 290,527	\$ 207,850	\$ 244,910	\$ 196,735	\$ 136,493	\$ 1,613,122
6613	Advertising	\$ 117,160	\$ 45,921	\$ 99,774	\$ 90,466	\$ 63,624	\$ 53,837	\$ 54,823	\$ 525,405
6620	Services Expense	\$ 1,184,150	\$ 1,085,814	\$ 1,182,915	\$ 1,181,271	\$ 929,136	\$ 831,676	\$ 874,173	\$ 7,249,035
6621	Cell Completion	\$ 77,339	\$ 64,085	\$ 67,847	\$ 92,653	\$ 80,045	\$ 52,526	\$ 72,774	\$ 507,269
6622	Number Services	\$ 209,358	\$ 279,294	\$ 198,065	\$ 206,891	\$ 213,548	\$ 125,488	\$ 231,616	\$ 1,464,270
6623	Customer Services	\$ 897,453	\$ 722,135	\$ 917,003	\$ 881,727	\$ 635,543	\$ 653,852	\$ 569,783	\$ 5,277,466
6220	Operator Systems Expense	\$ 5,103	\$ 6,229	\$ 24,481	\$ 312	\$ 17,912	\$ 193	\$ 14,226	\$ 87,455
6533	Operations Testing***	\$ 29,115	\$ 26,437	\$ 42,806	\$ 54,572	\$ 33,027	\$ 22,990	\$ 39,072	\$ 247,320
6544	Operations Plant Admin***	\$ 45,524	\$ 37,662	\$ 62,490	\$ 48,481	\$ 45,804	\$ 63,298	\$ 30,142	\$ 343,221
	Total Avoided Direct Retail Expenses	\$ 1,911,402	\$ 1,624,383	\$ 1,942,875	\$ 1,993,198	\$ 1,566,163	\$ 1,348,106	\$ 1,260,904	\$ 11,647,029
	Ratio, Avoided Direct Retail Expense to Revenues, Net of Access & Misc.	27.07%	23.57%	23.06%	25.66%	30.91%	24.32%	24.61%	25.39%
	Avoided Indirect Expense***								
6110	Network Support	\$ 6,744	\$ 1,813	\$ 4,368	\$ 3,636	\$ 2,931	\$ 2,089	\$ 2,621	\$ 24,200
6120	General Support	\$ 178,384	\$ 193,201	\$ 174,878	\$ 227,091	\$ 117,953	\$ 136,669	\$ 106,516	\$ 1,134,691
	Assignable Depreciation Exp.	\$ 103,948	\$ 118,902	\$ 123,457	\$ 98,336	\$ 121,080	\$ 109,301	\$ 82,556	\$ 758,558
	Gen'l Support Assets	\$ 96,262	\$ 110,832	\$ 113,204	\$ 90,435	\$ 113,037	\$ 105,871	\$ 73,088	\$ 702,709
	Operator Systems	\$ 7,883	\$ 9,070	\$ 10,253	\$ 7,901	\$ 8,023	\$ 3,430	\$ 9,488	\$ 55,849
6710	Executive and Planning	\$ 13,225	\$ 15,532	\$ 14,441	\$ 22,321	\$ 13,929	\$ 23,019	\$ 17,458	\$ 119,924
6720	General & Administrative	\$ 270,075	\$ 295,500	\$ 372,091	\$ 508,805	\$ 410,843	\$ 252,722	\$ 195,661	\$ 2,305,686
	Total Avoided Indirect Expense	\$ 572,373	\$ 625,946	\$ 689,265	\$ 860,168	\$ 688,716	\$ 623,781	\$ 404,811	\$ 4,343,070
	Ratio of Avoided Indirect Exp to Regulated Revenue, net of Access, Misc. Reva.	8.11%	9.08%	8.18%	11.07%	13.16%	9.45%	7.90%	9.47%
	Total Avoided Costs	\$ 2,483,775	\$ 2,250,329	\$ 2,632,129	\$ 2,853,366	\$ 2,232,879	\$ 1,871,886	\$ 1,665,716	\$ 15,990,099

Ratio of Avoided Costs to Regulated								
Revenue, net of Access, Misc. Revs.	35.18%	32.98%	31.24%	36.74%	44.07%	33.76%	32.51%	34.85%

* Revenue and expense data derived from COSA-specific ARMIS 43-03 reports. COSA-specific, regulated revenues and expenses were summed to develop RBOC level account data.

** Definition conforms to that used in AT&T's 'Avoided Cost' Model

*** Per AT&T's Avoided Cost Model, twenty percent of costs booked to these accounts are deemed avoided.

**** Indirect expenses avoided as shown on 'Indirect Expense Worksheet', except for Operator Systems, which is totally avoided. Avoided indirect expenses for accounts other than Operator Systems are calculated as the product of total account value and the indirect expense allocation factor.

JUL-17-1996 13:46 FROM 018 /GA/TELE/HORWATH TO 9120245/5205

Indirect Expense Worksheet

Indirect Expense Worksheet

Account	Category	Ameritech	Bell Atlantic	Bell South	NYNEX	PacTel	USWEST	SWBell
Indirect Expenses: Regulated RBOC Financials								
Total Account Values to be Allocated								
6110	Network Support	\$ 19,605	\$ 6,517	\$ 18,465	\$ 12,070	\$ 8,678	\$ 7,850	\$ 9,570
6120	General Support	\$ 518,553	\$ 694,669	\$ 856,255	\$ 753,941	\$ 349,260	\$ 518,555	\$ 388,947
	Assignable Depreciation Exp.	\$ 287,513	\$ 407,575	\$ 435,085	\$ 308,146	\$ 342,727	\$ 405,131	\$ 276,297
Allocated	Gen'l Support Assets	\$ 279,829	\$ 398,505	\$ 424,812	\$ 300,245	\$ 334,703	\$ 401,701	\$ 286,889
Allocated	Operator Systems	\$ 7,683	\$ 9,070	\$ 10,253	\$ 7,901	\$ 8,023	\$ 3,430	\$ 9,488
6710	Executive and Planning	\$ 38,444	\$ 55,845	\$ 54,191	\$ 74,106	\$ 41,244	\$ 87,341	\$ 63,747
6720	General & Administrative	\$ 785,095	\$ 1,062,494	\$ 1,396,321	\$ 1,889,232	\$ 1,216,509	\$ 958,888	\$ 714,463
	Total Indirect Expense	\$ 1,453,024	\$ 1,977,765	\$ 2,558,297	\$ 2,837,495	\$ 1,958,418	\$ 1,977,765	\$ 1,453,024
Derivation of Depreciation Expense Allocation Factor:								
	Total Plant In Service (APMIS 43-02)	\$ 27,747,315	\$ 32,016,520	\$ 42,933,986	\$ 32,131,246	\$ 25,946,801	\$ 29,976,901	\$ 27,883,350
	Total Land and Support Assets	\$ 4,183,219	\$ 5,209,866	\$ 6,041,581	\$ 4,239,298	\$ 4,891,871	\$ 5,333,315	\$ 4,246,849
	Operator Systems	\$ 114,861	\$ 118,448	\$ 145,823	\$ 111,556	\$ 117,265	\$ 45,540	\$ 151,022
	Depreciation Allocation Factors:							
	Ratio Support/TPIS	15.08%	16.25%	14.07%	13.19%	18.85%	17.79%	15.34%
	Ratio Op Sys/TPIS	0.41%	0.37%	0.34%	0.35%	0.45%	0.15%	0.55%
6560	Total Allocable Depreciation Expense	\$ 1,856,110	\$ 2,451,783	\$ 3,018,888	\$ 2,275,670	\$ 1,775,275	\$ 2,257,836	\$ 1,739,209
Indirect Expense Allocation Factors								
	Total Costs and Expense	\$ 7,077,927	\$ 7,933,418	\$ 9,733,176	\$ 9,293,775	\$ 6,481,452	\$ 7,021,778	\$ 5,984,129
	Uncollectibles	\$ 127,639	\$ 134,287	\$ 116,023	\$ 181,134	\$ 114,388	\$ 71,021	\$ 73,130
	Total C&E + Uncollectibles	\$ 7,205,566	\$ 8,067,705	\$ 9,849,199	\$ 9,454,909	\$ 6,595,840	\$ 7,092,799	\$ 6,057,259
	Total Indirect Expenses	\$ 1,849,210	\$ 2,227,100	\$ 2,558,297	\$ 2,837,495	\$ 1,958,418	\$ 1,977,765	\$ 1,453,024
	Balance: Total Direct Expense	\$ 5,516,356	\$ 5,840,605	\$ 7,290,902	\$ 6,617,414	\$ 4,637,422	\$ 5,115,034	\$ 4,604,235
	Avoided Direct Retail Expenses	\$ 1,911,402	\$ 1,824,383	\$ 1,942,875	\$ 1,993,198	\$ 1,568,169	\$ 1,348,105	\$ 1,260,904
	Allocation Factor	34.4%	27.8%	26.6%	30.1%	33.8%	26.4%	27.4%
	(Avoided Direct/Total Direct)							